

**FINANCIAL STATEMENTS****ST. MARTIN PARISH HOSPITAL SERVICE DISTRICT NO. 2****SEPTEMBER 30, 2011 AND 2010**

Under provisions of state law this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and where appropriate at the office of the parish clerk of court.

Release Date **APR 18 2012**

**FINANCIAL STATEMENTS**

**ST. MARTIN PARISH HOSPITAL SERVICE DISTRICT NO. 2**

**SEPTEMBER 30, 2011 and 2010**

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**LANGLINAIS  
BROUSSARD &  
KOHLENBERG**

A Corporation of Certified Public Accountants



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**INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
St. Martin Parish Hospital Service District No. 2  
Breaux Bridge, Louisiana

We have audited the financial statements of St. Martin Parish Hospital Service District No. 2 (the District), a component unit of the St. Martin Parish Government, State of Louisiana, as of September 30, 2011 and 2010, and the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards of the United States and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the St. Martin Parish Hospital Service District No. 2, a component unit of the St. Martin Parish Government, State of Louisiana, at September 30, 2011 and 2010, and the respective changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The supplementary information included is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

St. Martin Parish Hospital District No. 2 has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

  
LANGLINAIS BROUSSARD & KOHLENBERG  
(A corporation of Certified Public Accountants)

March 9, 2012

**ST. MARTIN PARISH HOSPITAL SERVICE DISTRICT NO. 2**

**STATEMENT OF NET ASSETS**

**SEPTEMBER 30,**

**ASSETS**

	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 249,481	\$ 2,018,588
Certificate of Deposit	2,208,808	396,537
Prepaid expenses	22,265	10,292
Accrued Interest Receivable	<u>1,511</u>	<u>-</u>
 Total Current Assets	 <u>2,482,065</u>	 <u>2,425,417</u>
 <b>ASSETS WHOSE USE IS LIMITED</b>		
For bond indenture		
Cash	188,649	351,973
Escrow for lease agreement		
Cash	<u>11,967</u>	<u>11,967</u>
 Total Assets Whose Use is Limited	 <u>200,616</u>	 <u>363,940</u>
 <b>PROPERTY, PLANT AND EQUIPMENT</b>		
Property, plant and equipment, cost	5,001,825	4,948,072
Less Accumulated Depreciation	<u>3,120,494</u>	<u>2,977,084</u>
 Total Property and Equipment	 <u>1,881,331</u>	 <u>1,970,988</u>
 DEFERRED FINANCING COSTS, NET	 <u>37,022</u>	 <u>45,405</u>
 TOTAL ASSETS	 <u>\$ 4,601,034</u>	 <u>\$ 4,805,750</u>

The accompanying notes are an integral part of these financial statements

**ST. MARTIN PARISH HOSPITAL SERVICE DISTRICT NO. 2**

**STATEMENT OF NET ASSETS**

**SEPTEMBER 30.**

**LIABILITIES AND NET ASSETS**

	<u>2011</u>	<u>2010</u>
<b>CURRENT LIABILITIES.</b>		
Current portion of long-term debt	\$ 206,000	\$ 193,000
Accounts payable	-	4,220
Property Taxes Paid Under Protest	4,263	4,263
Interest Payable	<u>4,130</u>	<u>4,713</u>
Total Current Liabilities	<u>214,393</u>	<u>206,196</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt		
General Obligation Issue 2008	467,000	533,000
General Obligation Issue 2004	<u>620,000</u>	<u>760,000</u>
Total Long-Term Liabilities	<u>1,087,000</u>	<u>1,293,000</u>
TOTAL LIABILITIES	<u>1,301,393</u>	<u>1,499,196</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	1,348,331	1,374,988
Restricted Net Assets (Expendable)	200,616	363,940
Unrestricted Net Assets	<u>1,750,694</u>	<u>1,567,626</u>
TOTAL NET ASSETS	<u>3,299,641</u>	<u>3,306,554</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,601,034</u>	<u>\$ 4,805,750</u>

The accompanying notes are an integral part of these financial statements

ST. MARTIN PARISH HOSPITAL SERVICE DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Lease Income	\$ 286,000	\$ 286,092
TOTAL OPERATING REVENUE	<u>286,000</u>	<u>286,092</u>
OPERATING EXPENSES		
General and Administrative	58,978	69,806
Depreciation and Amortization	195,575	243,426
Recoupment of Prior Year Cost Report	-	43,851
TOTAL OPERATING EXPENSES	<u>254,553</u>	<u>357,083</u>
INCOME (LOSS) FROM OPERATIONS	<u>31,447</u>	<u>(70,991)</u>
NON-OPERATING REVENUES (EXPENSES)		
Income from Assets Whose Use is Limited For Bond Indenture	163	248
Advalorem Taxes	131	2,680
Loss on Disposal of Fixed Assets	(2,464)	(4,551)
Interest Income	16,312	14,906
Interest Expense	<u>(52,502)</u>	<u>(57,767)</u>
TOTAL NON-OPERATING REVENUES	<u>(38,360)</u>	<u>(44,484)</u>
CHANGE IN NET ASSETS	<u>(6,913)</u>	<u>(115,475)</u>
TOTAL NET ASSETS, BEGINNING	<u>3,306,554</u>	<u>3,422,029</u>
TOTAL NET ASSETS, ENDING	<u>\$ 3,299,641</u>	<u>\$ 3,306,554</u>

The accompanying notes are an integral part of these financial statements

**ST. MARTIN PARISH HOSPITAL SERVICE DISTRICT NO. 2**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED SEPTEMBER 30.**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from lease	\$ 286,000	\$ 286,092
Cash payments to suppliers for goods and services	<u>(72,706)</u>	<u>(309,555)</u>
Net Cash Flow from Operating Activities	<u>213,294</u>	<u>(23,463)</u>
<b>CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES</b>		
Ad valorem taxes	<u>131</u>	<u>2,680</u>
Net Cash Provided by Financing Activities	<u>131</u>	<u>2,680</u>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES</b>		
Acquisition of property and equipment	(100,000)	(167,432)
Proceeds from sale of fixed assets	-	9,829
Loss on Disposal of Assets	(2,464)	(4,551)
Principal Payments on Long-Term Debt	<u>(193,000)</u>	<u>(185,000)</u>
Net Cash Provided by (Used in) Capital and Related Financial Activities	<u>(295,464)</u>	<u>(347,154)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Certificate of Deposit	(1,812,271)	(4,072)
Interest and Dividends on Assets Whose Use is Limited	163	248
Interest Income	14,801	14,906
Interest Expense	<u>(53,085)</u>	<u>(57,767)</u>
Net Cash Provided by Investing Activities	<u>(1,850,392)</u>	<u>(46,685)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,932,431)</b>	<b>(414,622)</b>
<b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR, INCLUDING \$363,940 AND \$762,029 LIMITED AS TO USE FOR 2011 AND 2010, RESPECTIVELY</b>	<b><u>2,382,528</u></b>	<b><u>2,797,150</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING \$200,616 AND \$363,940 LIMITED AS TO USE FOR 2011 AND 2010, RESPECTIVELY</b>	<b><u>\$ 450,097</u></b>	<b><u>\$ 2,382,528</u></b>

The accompanying notes are an integral part of these financial statements

**ST. MARTIN PARISH HOSPITAL SERVICE DISTRICT NO. 2**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED SEPTEMBER 30.**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 31,447	\$ (70,991)
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities		
Depreciation	187,193	235,044
Amortization	8,383	8,382
Loss on Disposal of Fixed Assets	2,464	4,551
Decrease (Increase) in Prepaid Expenses	(11,973)	11,819
Decrease in Accounts Payable	(4,220)	(99,689)
Increase (Decrease) in Due to Lessee	-	(112,579)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 213,294</u>	<u>\$ (23,463)</u>

The accompanying notes are an integral part of these financial statements



ST MARTIN PARISH HOSPITAL SERVICE DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

**NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Reporting Entity***

Hospital Service District No. 2 (the Hospital Service District) was created in October 1969 by the Parish Government of St. Martin Parish, Louisiana to operate, control, and manage matters concerning the parish's health care functions. The Parish Government appoints the Board of Commissioners of the Hospital Service District, and the Hospital Service District may not issue debt without the Parish's approval. For this reason, the Hospital Service District is considered to be a component unit of the St. Martin Parish Government, St. Martin Parish, Louisiana.

***Basis of Accounting***

The accompanying financial statements of the Hospital Service District have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applicable to governmental entities. In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. GASB 34 established standards for external financial reporting for all state and local governmental entities, which included a balance sheet or statement of net assets, a statement of revenues, expenditures and changes in net assets, and a statement of cash flows utilizing the direct method of presentation. During fiscal year 2003, the Hospital Service District implemented GASB Statement No. 34, as amended by GASB Statement No. 37 and No. 38, and applied those standards on a retroactive basis.

GASB Statement No. 34 establishes standards for state and local governments and requires that resources are classified for accounting and reporting purposes into the following three net asset categories:

*Invested in capital assets, net of related debt* consist of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, note, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories.

**ST MARTIN PARISH HOSPITAL SERVICE DISTRICT NO 2**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2011 AND 2010**

**NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

***Proprietary fund accounting:***

The Hospital Service District utilizes the proprietary fund method of accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital Service District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

***Use of estimates:***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and cash equivalents:***

Cash includes amounts in demand deposits, interest-bearing demand deposits, and time deposits. Cash equivalents include amounts in time deposits and those investments with original maturities of ninety days or less. Under state law, the Hospital Service District may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

***Investments in debt and equity securities:***

Investments in debt and equity securities are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are reported at amortized cost, which approximates fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating income when earned.

***Trade Receivables and allowance for doubtful accounts***

Trade receivables are carried at the original billed amount less an estimate made for doubtful (uncollectible) accounts based on a review of all outstanding amounts. Recoveries of trade receivables previously written-off are recorded when received.

**ST. MARTIN PARISH HOSPITAL SERVICE DISTRICT NO. 2**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2011 AND 2010**

**NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

***Property, Plant and Equipment:***

Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization expense in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The following estimated useful lives are generally used:

Land improvements	5 - 25 years
Building	10 - 40 years
Building improvements	10 - 40 years
Fixed equipment	5 - 25 years
Movable equipment	5 - 25 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

***Grants and Donations:***

Revenues from grants and donations are recognized when all eligibility requirements, including time requirements, are met. Grants and donations may be restricted for either specific operating purposes or for capital purposes (see PP&E above). Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as operating revenues.

***Costs of borrowing:***

Expenses related to issuance of advance refunding bonds are deferred and amortized over the life of the old debt or the new debt, whichever is shorter.

**ST. MARTIN PARISH HOSPITAL SERVICE DISTRICT NO. 2**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2011 AND 2010**

**NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

**Advalorem Taxes:**

Pursuant to the election held on October 4, 2008, which resulted in the lease of assets, the Hospital Service District's millage was cancelled and the Hospital Service District has not appeared on the tax roll of St Martin Parish since 2008. Taxes collected after 2009 are related to taxes levied for periods before 2009.

**Risk Management:**

The Hospital Service District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets, business interruption; errors and omissions and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters

**Restricted Assets:**

When the Hospital Service District has both restricted and unrestricted resources available to finance a particular program, it is the Hospital Service District's policy to use restricted resources before unrestricted resources.

**Operating Revenues:**

The Hospital Service District's Statements of Revenues, Expenses and Changes in Net Assets distinguishes between operating and non-operating revenues. Operating revenues include all transactions associated with the District's lease with St Martin Hospital, Inc. Non-operating revenues include revenues such as advalorem taxes, interest, and gains or losses on disposals of assets. Operating expenses are all expenses to administer the lease agreement, other than financing costs.

**Advertising:**

The Hospital Service District expenses advertising costs as incurred.

**NOTE 2 MAJOR SOURCE OF REVENUE**

The Hospital Service District derives all of its operating revenue from its lease with St Martin Hospital, Inc

ST MARTIN PARISH HOSPITAL SERVICE DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, by major category, is as follows at September 30,.

	<u>9/30/2010</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>9/30/2011</u>
Land	\$ 24,726	\$ -	\$ -	\$ 24,726
Land improvements	191,419	-	-	191,419
Building	843,976	-	-	843,976
Building improvements	2,260,523	100,000	-	2,360,523
Fixed equipment	1,172,118	-	( 25,543)	1,146,575
Movable equipment	<u>455,310</u>	<u>-</u>	<u>( 20,704)</u>	<u>434,606</u>
Gross Fixed Assets	4,948,072	100,000	( 46,247)	5,001,825
Less: Accumulated Depreciation	<u>(2,977,084)</u>	<u>(187,193)</u>	<u>43,783</u>	<u>(3,120,494)</u>
Net Property, Plant and Equipment	<u>\$1,970,988</u>	<u>\$ ( 87,193)</u>	<u>\$ ( 2,464)</u>	<u>\$1,881,331</u>

Depreciation expense for the years ended September 30, 2011 and 2010 is \$187,193 and \$235,044, respectively.

NOTE 4 LONG-TERM DEBT

Long-term debt at September 30, consisted of the following.

	<u>2011</u>	<u>2010</u>
General obligation bonds, dated November 1, 2004 bearing interest rates ranging from 1 86% to 4 28%, maturing serially on March 1 of each year beginning in 2005, with interest payable on March 1 and September 1 of each year, with the final maturity on March 1, 2016	\$ 760,000	\$ 890,000
General obligation bonds, dated March 26, 2008 bearing an interest rate of 3.44%, maturing serially on March 1 of each year beginning in 2009, with interest payable on March 1 and September 1 of each year, with the final maturity on March 1, 2018. The funds to be used for capital outlay.	<u>533,000</u>	<u>596,000</u>
	1,293,000	1,486,000
Less: Current Portion	<u>206,000</u>	<u>193,000</u>
Long-Term Portion	<u>\$ 1,087,000</u>	<u>\$ 1,293,000</u>

**ST. MARTIN PARISH HOSPITAL SERVICE DISTRICT NO. 2**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2011 AND 2010**

**NOTE 4: LONG-TERM DEBT (cont)**

A summary of long-term debt activity for the year ended is as follows

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation 2004	\$ 890,000	\$ -	\$ 130,000	\$ 760,000	\$ 140,000
General Obligation 2008	<u>596,000</u>	<u>-</u>	<u>63,000</u>	<u>533,000</u>	<u>66,000</u>
Total	<u>\$1,486,000</u>	<u>\$ -</u>	<u>\$ 193,000</u>	<u>\$1,293,000</u>	<u>\$ 206,000</u>

Scheduled repayments on long-term debt are as follows

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 206,000	\$ 45,755	\$ 251,755
2013	214,000	37,809	251,809
2014	222,000	29,372	251,372
2015	236,000	20,345	256,345
2016	244,000	10,772	254,772
2017-2018	<u>171,000</u>	<u>5,968</u>	<u>176,968</u>
Total	<u>\$1,293,000</u>	<u>\$ 150,021</u>	<u>\$ 1,443,021</u>

Under the terms of the Note Indentures, the Hospital Service District is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use (See Note 9) in the financial statements.

**NOTE 5: CASH FLOWS SUPPLEMENTAL INFORMATION**

Total cash and cash equivalents for September 30, are as follows:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 249,481	\$ 2,018,588
Assets whose use is limited - Cash	<u>200,616</u>	<u>363,940</u>
Ending Cash and Cash Equivalents	<u>\$ 450,097</u>	<u>\$ 2,382,528</u>

Total interest paid by the Hospital Service District was \$53,085 and \$57,767, for 2011 and 2010, respectively. Total interest capitalized as a component of the cost of assets constructed with borrowed funds was \$23,426 for the year ended September 30, 2010. There was no capitalized interest for the year ended September 30, 2011.

**NOTE 6: CONCENTRATIONS OF CREDIT RISK**

The hospital service district depends solely on the lease revenue derived from its lease with St. Martin Hospital, Inc. for operational revenue.

**ST. MARTIN PARISH HOSPITAL SERVICE DISTRICT NO. 2**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2011 AND 2010**

**NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used by the Hospital Service District in estimating the fair value of its financial instruments.

*Cash and cash equivalents:* The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

*Investments:* Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices for similar securities

*Assets limited as to use* These assets consist primarily of cash, short-term investments and interest receivable. The carrying amount reported in the balance sheet is fair value

*Accounts payable and accrued expenses* The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

*Estimated third-party payor settlements:* The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

*Long-term debt.* Fair values of the Hospital Service District's revenue notes are based on current traded value. The fair value of the Hospital Service District's remaining long-term debt is estimated using discounted cash flow analyses, based on the Hospital Service District's current incremental borrowing rates for similar types of borrowing arrangements

The carrying amounts and fair values of the Hospital Service District's financial instruments at September 30, are as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 249,481	\$ 249,481	\$ 2,018,588	\$ 2,018,588
Certificate of deposit	\$ 2,208,808	\$ 2,208,808	\$ 396,537	\$ 396,537
Assets limited as to use	\$ 200,616	\$ 200,616	\$ 393,940	\$ 363,940
Accounts payable and accrued expenses	\$ 4,130	\$ 4,130	\$ 8,933	\$ 8,933
Due to Lessee	\$ -	\$ -	\$ -	\$ -
Long-term debt	\$ 1,293,000	\$ 1,293,000	\$ 1,486,000	\$ 1,486,000

**NOTE 8 BANK DEPOSITS AND INVESTMENTS**

State statutes authorize the Hospital Service District to invest in obligations of the U.S. Treasury, certificates or other obligations of the United States of America, and time certificates of deposit of state banks organized under the laws of Louisiana and national banks having the principal office in the State of Louisiana

**ST. MARTIN PARISH HOSPITAL SERVICE DISTRICT NO 2**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2011 AND 2010**

**NOTE 8: BANK DEPOSITS AND INVESTMENTS (cont)**

At September 30, the Hospital Service District had bank balances as follows:

	<u>2011</u>	<u>2010</u>
Insured (FDIC)	\$ 750,000	\$ 750,000
Collateralized by securities held by the pledging financial institution's trust department in the Hospital Service District's name	<u>2,338,390</u>	<u>2,928,592</u>
Total	<u>\$3,088,390</u>	<u>\$3,678,592</u>
Carrying Value	<u>\$2,665,405</u>	<u>\$2,779,728</u>

Investments consist of certificates of deposit with financial institutions. The fair value for these investments is not materially different from its reported amounts. In accordance with SFAS No 157, the Hospital Service District groups assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are

**Level 1** - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

**Level 2** - Valuations for assets and liabilities traded in less active dealer or broker markets. For example, municipal securities valuations are based on markets that are currently offering similar financial products. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

**Level 3** - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models, and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Below is a table that presents information about certain assets and liabilities measured at fair value on a recurring basis

	Quoted Prices In Active Markets For Identical Assets/Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs
<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificate of Deposit	<u>\$2,208,808</u>	<u>\$ 2,208,808</u>	<u>\$ -</u>



ST. MARTIN PARISH HOSPITAL SERVICE DISTRICT NO 2

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NOTE 9: ASSETS LIMITED AS TO USE

The series 2008 bond agreement (certificates of indebtedness) requires that a sinking fund be established and maintained with the regularly designated fiscal agent bank of the issuer. The issuer shall deposit in the sinking fund from the first revenues of the tax received in any calendar year, a sum equal to the principal and/or interest falling due on the certificates in that calendar year, together with such additional proportionate sum as may be required to pay said principal and interest as the same become due and any amount required to pay the charges of the paying agent.

Pursuant to the lease agreement with St. Martin Hospital, Inc., a Louisiana non-profit corporation that is a wholly owned subsidiary of Lafayette General Medical Center, a Louisiana not-for-profit corporation, effective July 31, 2009; the Hospital Service District is "obligated to place in escrow \$250,000 for five years after the commencement date of the lease in the event to settle any Medicare, Medicaid, or other third party overpayments associated with the District's operation of the Hospital prior to the commencement date. The escrowed funds shall remain the property of the District and shall be remitted to the District after a period of five years assuming funds remain following the settlement of all open cost reports associated with the District's operation of the hospital prior to the commencement date" During the fiscal year ended September 30, 2010, the District paid recoupments of third party payor settlements in the amount of \$238,033, reducing the escrow balance to \$11,967. There were no changes in the escrow balance for the year ended September 30, 2011.

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets. The composition of assets limited as to use at September 30, is set forth in the following table

	<u>2011</u>	<u>2010</u>
Under Indenture Agreement	\$ 188,649	\$ 351,973
Lease Escrow	<u>11,967</u>	<u>11,967</u>
Total	<u>\$ 200,616</u>	<u>\$ 363,940</u>

The above totals also represent the balance in restricted net assets.

Investment income and gains on assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ending September 30:

	<u>2011</u>	<u>2010</u>
Income		
Interest income	\$ 163	\$ 248
	<u>\$ 163</u>	<u>\$ 248</u>

**ST MARTIN PARISH HOSPITAL SERVICE DISTRICT NO 2**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2011 AND 2010**

**NOTE 10: TAXES PAID UNDER PROTEST**

Act No 1149 of the Regular Session 2001 Amended La R S 47 1856(E) to provide as follows. Any company instituting suit under these provisions [La R.S. 47:1856] shall timely pay in full its taxes in the jurisdiction from which its tax bill emanates. Any funds received as payment of taxes under the provisions of this subsection shall be used only for non-recurring expenses except for any such funds pledged as security for any bonds or other evidences of indebtedness and for any such funds when the proposition approving the millage provides specifically for another intended purpose. The governing authority of any jurisdiction shall not use any such funds for nonrecurring expenses in a manner which will displace, replace or supplant funds which were otherwise available for such nonrecurring expenses

Further, La R S 47 1856(F)(1)(a)(I) provides that if the assessed valuation finally determined by the Court is less than the amount determined by the Louisiana Tax Commission, the protesting public service company is entitled to a credit against future property taxes in each jurisdiction affected, or refund in cash from each jurisdiction affected. If the company chooses a refund, a refund is required to be paid by the Tax Collector of each affected jurisdiction from current tax collections and in no event will the refund be paid later than 90 days from the date in which the judgment is entered and becomes final, and interest shall be credited thereon at the minimum rate as provided by La. R.S 39:1217.1 Taxes paid under protest at September 30, 2011 and 2010 were \$4,263.

**NOTE 11: BOND DEFEASANCE**

On November 1, 2004, the Hospital Service District issued \$1,370,000 in General Obligation Bonds with interest rates ranging from 1.86% to 4.28% to refinance \$1,520,000 of outstanding 1996 General Obligation Bonds with interest rates ranging from 5.35% to 8.0%. The net proceeds of \$1,370,000 plus an additional \$250,000 was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1996 General Obligation Bonds which mature after March 1, 2006.

Although the refinancing resulted in the recognition of an accounting loss of \$95,000 for the year ended September 30, 2005, the Hospital Service District, in effect, reduced its aggregate debt service payments by almost \$121,677 over the next 10 years and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of almost \$57,822. The effective interest rate on the new issue is 3.2%. The accounting loss of \$95,000 is being amortized over 136 months ending March 1, 2016.

**NOTE 12 LEASE**

An election was held in Hospital Service District No. 2 of the Parish of St. Martin, Louisiana, on October 4, 2008, the results of which authorized the lease of all of the assets of Hospital Service District No. 2 of the Parish of St. Martin for fair market value to Lafayette General Medical Center ("LGMC"), a non-profit corporation.

**ST MARTIN PARISH HOSPITAL SERVICE DISTRICT NO. 2**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2011 AND 2010**

**NOTE 12: LEASE (cont)**

The lease was executed on July 31, 2009 between St. Martin Parish Hospital Service District No. 2 (lessor) and St. Martin Hospital, Inc., a Louisiana non-profit corporation that is a wholly owned subsidiary of Lafayette General Medical Center, a Louisiana not-for-profit corporation (lessee). The lease includes the hospital building located at 210 Champagne Boulevard, Breaux Bridge, Louisiana, 70517. The lease includes all land, buildings, furniture, fixtures, improvements, inventory, supplies and equipment represented on the Statement of Net Assets, with a net book value of \$1,881,331 and \$1,970,988 for the years ended September 30, 2011 and 2010, respectively, which are also described in Note 4 above.

The initial term of the lease is twenty-five years commencing August 1, 2009. The initial term shall renew for a period of twenty-four years, unless lessee transmits a notice of termination to lessor at least ninety days before the expiration of the initial term. The lease is considered an operating lease by St. Martin Parish Hospital District No. 2. After the fifth lease year (See Note 15), the lessee may terminate the lease in the event of "a legislative or regulatory change or determination...that would have a material impact on the lessee's operation of the hospital...or the Hospital loses its Critical Access Hospital status".

Rent in the amount of \$23,833 is to be paid monthly for the full initial term. The lease states that "the lessee is responsible for payment of all costs of operation and maintenance of the premises. The lessor shall not be liable for any damage to property in, on, upon or near the premises caused by any event whatsoever .except to the extent that the damage was a result from the intentional or negligent act of the lessor, or the lessor's agent or employees. The lessor shall not be liable for any damage to persons or property sustained by the lessee or others due to the happening of any accident in or about the premises, or due to any negligence of the lessee or any permitted tenant or occupant of the premises, or any other person, except to the extent that the damage was a result from the intentional or negligent act of the lessor, or the lessor's agent or employees ..Lessor shall maintain building property and casualty insurance covering the premises for an amount not less than the full replacement cost of the premises".

Lease revenues recognized for the years ended September 30, 2011 and 2010 are \$286,000 and \$286,092, respectively.

**NOTE 13: BOARD COMPENSATION**

The board of commissioners did not receive any compensation for the years ended September 30, 2011 and 2010.

**NOTE 14 COMMITMENTS AND CONTINGENCIES**

On December 28, 2009, the State of Louisiana Department of Health and Hospitals withheld \$194,182 (for the years ended 2005 and 2006) from the 2010 Uncompensated Care Payment. On March 5, 2010, the Centers for Medicare and Medicaid Services (CMS) recouped \$43,851 in an adjustment to the Medicare cost report filed for the fiscal year ended September 30, 2008. The lessee, St. Martin Hospital, Inc., requested reimbursement for these amounts from the St. Martin Parish Hospital

**ST MARTIN PARISH HOSPITAL SERVICE DISTRICT NO. 2**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2011 AND 2010**

**NOTE 14: COMMITMENTS AND CONTINGENCIES (cont)**

District No. 2 pursuant to the lease contract that stipulates that the District is "obligated .to settle any Medicare, Medicaid, or other third party overpayments associated with the District's operation of the Hospital prior to the commencement date". The District paid both of these obligations during the fiscal year ended September 30, 2010. It is unknown what amount of future liability the District may owe contingent upon these lease terms

**NOTE 15: SUBSEQUENT EVENTS**

On November 16, 2011, the Board of Commissioners approved allocating \$2,000,000 for the renovation/addition to the St. Martin Hospital physical plant provided the Amendment No. 4 to special services lease agreement is approved by the St. Martin Hospital Board of Trustees

Amendment No. 4 went into affect on November 16, 2011. This amendment extends the option for the Lessee to terminate from five years to fifteen years Details of the lease are found at Note 12

ST. MARTIN PARISH HOSPITAL SERVICE DISTRICT NO. 2

SCHEDULE OF GENERAL AND ADMINISTRATIVE FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2011</u>	<u>2010</u>
Salaries and Fees		
Administrative	\$ -	\$ 430
Total Salaries and Fees	-	430
Supplies and Other Expenses		
Administrative	45	748
Insurance	49,449	50,567
Fees	275	250
Other	<u>9,209</u>	<u>17,811</u>
Total Supplies and Other Expenses	<u>58,978</u>	<u>69,376</u>
Total General and Administrative Services	<u>\$ 58,978</u>	<u>\$ 69,806</u>



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

Board of Commissioners  
St. Martin Parish Hospital Service District No. 2  
Breaux Bridge, Louisiana

We have audited the financial statements of St. Martin Parish Hospital Service District No. 2 (The District), a component unit of the St. Martin Parish Government, State of Louisiana, as of and for the years ended September 30, 2011 and 2010, and have issued our report thereon dated March 9, 2012.

We conducted our audit in accordance with generally accepted auditing standards of the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements of the district as of and for the year ended September 30, 2011 and 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider all deficiencies described in the accompanying "Schedule of Findings and Questioned Costs and Management's Corrective Action Plan" to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider all deficiencies described in the accompanying "Schedule of Findings and Questioned Costs and Management's Corrective Action Plan" to be significant deficiencies.

#### COMPLIANCE

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The district's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and Management's Corrective Action Plan". We did not audit the District's responses and, accordingly, we express no opinion on it.

This report is intended for the information of St. Martin Parish Hospital Service District No. 2, a component unit of the St. Martin Parish Government, State of Louisiana, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

We acknowledge with appreciation the courtesies extended our representatives during the audit.

Sincerely,



LANGLINAIS BROUSSARD & KOHLENBERG  
(A Corporation of Certified Public Accountants)

March 9, 2012

**ST MARTIN PARISH HOSPITAL  
SERVICE DISTRICT NO.2  
BREAUX BRIDGE, LOUISIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND MANAGEMENT'S CORRECTIVE ACTION  
PLAN**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

We have audited the financial statements of St. Martin Parish Hospital Service District No. 2, a component unit of the St. Martin Parish Government, State of Louisiana, as of and for the years ended September 30, 2011 and 2010, and have issued our report thereon dated March 9, 2012.

We conducted our audit in accordance with generally accepted auditing standards of the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-133. Our audit of the financial statements as of September 30, 2011 and 2010, resulted in unqualified opinions.

**Section I - Summary of Auditor's Reports**

**A Report on Internal Control and Compliance Material to the Financial Statements**

Internal Control

Material Weaknesses:	Yes
Significant Deficiencies:	Yes

Compliance.

Compliance Material to Financial Statements	No
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**Section II Financial Statement Findings**

**A - Issues of Noncompliance**

None noted

**B- Significant Deficiencies and Material Weaknesses**

**Finding 2011-1 Financial Statement Preparation**

**Condition and Criteria** The Hospital Service District (the District) relies on its outside auditors to assist in the preparation of external financial statements and related disclosures. Under U.S. generally accepted auditing standards, outside auditors cannot be considered part of the District's internal control structure, and, because of limitations of the District's accounting staff, the design of the District's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements.

**Effect:** This represents a material weakness in the Hospital Service District's internal control system.



**ST. MARTIN PARISH HOSPITAL  
SERVICE DISTRICT NO 2  
BREAUX BRIDGE, LOUISIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND MANAGEMENT'S CORRECTIVE ACTION  
PLAN**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**Finding 2011-1 Financial Statement Preparation (cont)**

**Recommendation** The Hospital Service District should continue outsourcing the preparation of its financials to its independent auditors and carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their contents and presentation.

**Management Response.** The board chairman will make deposits and handle payables with the signature of another board member. The secretary/treasurer (CPA) will prepare the interim financial statements.

**Finding 2011-2 Segregation of Duties**

**Condition and Criteria** The authorization, recording, and reconciling of transactions as well as the custody of assets related to those transactions are not adequately segregated

**Effect.** This represents a material weakness in the Hospital Service District's internal control system

**Recommendation** The authorization, recording, and reconciliation of transactions and decisions as well as custody of assets related to those transactions should be segregated functions.

**Management Response.** The board chairman will deposit the monthly rent, annually pay the District's bond issue and loan debt, and pay general liability and property insurance premiums. The secretary/treasurer (CPA) will prepare the interim financial statements

**Section III- Management Letter Items**

There are no management letter items at September 30, 2011

ST.MARTIN PARISH HOSPITAL  
SERVICE DISTRICT NO. 2  
BREAUX BRIDGE, LOUISIANA

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Finding 2010-1 Financial Statement Preparation

The Hospital Service District (the District) relies on its outside auditors to assist in the preparation of external financial statements and related disclosures. Under U S. generally accepted auditing standards, outside auditors cannot be considered part of the District's internal control structure, and, because of limitations of the District's accounting staff, the design of the District's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements

**Status** Unresolved See Finding 2011-1.

Finding 2010-2 Segregation of Duties

Duties are not adequately segregated.

**Status.** Unresolved See Finding 2011-2.